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SUBJECT: SERBIA: JOINT VENTURES FOR NEW POWER PLANTS

REF: 08 Belgrade 382

#### Summary

1. (SBU) On January 20, state-owned Electric Power Industry of Serbia (EPS) announced an international call for firms to submit an expression of interest in joint investments in the construction of two power plants. The tenders are likely to be contested between Russian and Western firms with vigorous lobbying and Serbian party politics at the center of the process. Industry analysts expressed concern about aggressive Russian tactics, but expected several strong Western consortiums to bid. Ultimately, this tender could be an indicator of the balance of power between the coalition partners in Serbia and the commitment of the government to a transparent bid process. End Summary.

#### New Tenders for New Power Plants

2. (U) On January 20, state-owned Electric Power Industry of Serbia (EPS) announced an international call for firms to submit an expression of interest in joint investments in two thermal power plant projects - Kolubara B (2x350 MW) and Nikola Tesla B (700 MW). The proposed facilities would provide additional generation capacity at existing power plant sites, maximizing the use of existing infrastructure. EPS hopes to complete the qualification process for potential partners in the first half of 2009. Qualified bidders would be asked to submit financial offers later in the year with EPS planning to make a selection by the end of 2009. The total investment required for the two projects is approximately \$2.7 billion and the projects should require four to five years to complete. Post forwarded information on the tenders to the Commerce Department for circulation to U.S. firms.

#### Who is in Charge - DS or SPS or Both?

3. (SBU) Aleksandar Cirilovic, Chairman of the Democratic Party (DS) Energy Committee, told us on January 23 that the Energy and Mining Ministry under Socialist Party of Serbia (SPS) Minister Skundric was pushing for these tenders, while DS did not have clear strategy. According to Cirilovic, Skundric (an honorary professor at Technology University in St. Petersburg) Energy Ministry State Secretary Dusan Mrakic (SPS) supported by EPS management, especially Deputy Director Dragan Tomic, were in favor of partnership with the Russian electricity trading firm Inter RAO.

4. (SBU) According to the coalition agreement DS was to appoint the EPS managing director, but seven months after the government was formed DS has not agreed internally on appropriate candidate. Cirilovic said that DS needed to take charge of the tender process in EPS, but the internal struggle among different lobbies kept DS from acting. The current EPS management, including the managing director, is from the opposition Democratic Party of Serbia (DSS)

and SPS. Cirilovic said that the lobbying process within DS for EPS potential partners had already started. Cirilovic believed the final decision on the tenders would ultimately need the endorsement of President Tadic.

#### Western Companies with DS

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15. (SBU) Cirilovic said that Tadic was fed up with proposals coming from the same people and the same players and that any new respectable player would be more than welcome. According to Cirilovic, Economy Minister Mladjan Dinkic (G-17) and DS official and former Minister of Privatization Aleksandar Vlahovic would support German firm RWE. Czech energy firm CEZ hoped to use support from Mayor of Belgrade Dragan Djilas (DS). Local tycoon and president of the electricity trading company Energy Financing Team (EFT) Vuk Hamovic was looking for a partner to bid together in a consortium. Cirilovic said that an EFT consortium could be very competitive. He also admitted that he would personally lobby for German energy firm EnBW, which was considering participation in the tenders together with the investment fund Washington Capital Group.

#### Russians stick to SPS

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16. (SBU) In April 2008, EPS and Inter RAO signed a protocol on cooperation for developing power generation facilities (reftel). The protocol was signed in the middle of the parliamentary election campaign in Serbia. The agreement made no commitments, but called for exchanges of information on current and prospective projects and joint activities in third country markets. The agreement was not binding and expires on July 1, 2009.

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#### EPS Like NIS - History's Repeating?

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17. (SBU) Zorana Milanovic Mihajlovic, energy advisor to Republika Srpska PM Milorad Dodik, told us on January 21 that non-binding agreements with Russians as such did not exist. Zorana said that working groups, created under the protocol, were preparing options for EPS divisions and equipment to be included into future joint Serbian-Russian companies. Zorana expected that as in the case of oil firm NIS, tenders would fail and that Inter RAO would enter into direct negotiations with EPS. Cirilovic confirmed that working groups did exist under the protocol, but denied that Inter RAO would be invited to negotiate with EPS outside the tender process. He said that the tenders would be open, but only strong and respectable players would be considered.

18. (U) EPS has 8,355 MW of installed capacity and 35,000 employees. The major concern for investors is that electricity prices in Serbia are the lowest in the region - on average 5.5 eurocents per kilowatt hour (kWh). On January 16, announcing the tenders for the new powers plants, Energy Minister Skundric said that the electricity price would be adjusted to match prices in the region before the projects were finished.

#### COMMENT

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19. (SBU) The Energy Ministry has talked about releasing the EPS tenders for more than two years. The January Russian gas cut off may have been the final straw to push these tenders to market. Serbian media focused blame for the gas crisis on Ukraine, but Russia's reputation took a significant hit in the public. We expect that Russian interests will press on all fronts to secure the power plant projects. However, political divisions in the government and public concern about Russia's reliability as an energy partner may hamper Russian efforts. In the end, these tenders will be a bellwether of Serbia's commitment to free and transparent bids for large projects. If the tenders are handled well, Serbia will not only secure desperately needed electricity supply, but will also advance its credibility with Europe. End Comment.

